

EASTMAN CHEMICAL CO
Form 10-Q
August 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-12626

EASTMAN CHEMICAL COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

62-1539359
(I.R.S. employer
identification no.)

200 South Wilcox Drive
Kingsport, Tennessee
(Address of principal executive offices)

37662
(Zip Code)

Registrant's telephone number, including area code: (423) 229-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer

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Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding at June 30, 2011
Common Stock, par value \$0.01 per share	70,200,484

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

(Dollars in millions, except per share amounts)	Second Quarter		First Six Months	
	2011	2010	2011	2010
Sales	\$1,885	\$1,502	\$3,643	\$2,872
Cost of sales	1,422	1,118	2,747	2,171
Gross profit	463	384	896	701
Selling, general and administrative expenses	121	102	234	197
Research and development expenses	39	33	75	66
Asset impairments and restructuring charges (gains), net	(15)	3	(15)	3
Operating earnings	318	246	602	435
Net interest expense	18	25	37	50
Other charges (income), net	(6)	7	(12)	14
Earnings from continuing operations before income taxes	306	214	577	371
Provision for income taxes from continuing operations	96	73	185	125
Earnings from continuing operations	210	141	392	246
Earnings from discontinued operations, net of tax	--	7	8	3
Gain from disposal of discontinued operations, net of tax	1	--	31	--
Net earnings	\$211	\$148	\$431	\$249
Basic earnings per share				
Earnings from continuing operations	\$2.97	\$1.96	\$5.55	\$3.40
Earnings from discontinued operations	0.01	0.09	0.54	0.04
Basic earnings per share	\$2.98	\$2.05	\$6.09	\$3.44
Diluted earnings per share				
Earnings from continuing operations	\$2.90	\$1.92	\$5.40	\$3.35
Earnings from discontinued operations	0.01	0.10	0.54	0.03
Diluted earnings per share	\$2.91	\$2.02	\$5.94	\$3.38
Comprehensive Income				
Net earnings	\$211	\$148	\$431	\$249
Other comprehensive income (loss), net of tax				
Change in cumulative translation adjustment	11	(9)	36	(21)
Change in unrecognized losses and prior service credits for benefit plans	2	6	6	9
Change in unrealized (losses) gains on derivative instruments	(19)	2	(33)	8
Total other comprehensive income (loss), net of tax	(6)	(1)	9	(4)
Comprehensive income	\$205	\$147	\$440	\$245
Retained Earnings				
Retained earnings at beginning of period	\$3,066	\$2,640	2,880	2,571
Net earnings	211	148	431	249

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Cash dividends declared	(33)	(32)	(67)	(64)
Retained earnings at end of period	\$3,244		\$2,756		3,244		2,756	

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 634	\$ 516
Short-term time deposits	200	--
Trade receivables, net	769	545
Miscellaneous receivables	115	131
Inventories	748	608
Other current assets	42	30
Current assets held for sale	--	217
Total current assets	2,508	2,047
Properties		
Properties and equipment at cost	8,125	7,908
Less: Accumulated depreciation	5,206	5,063
Properties and equipment held for sale, net	--	374
Net properties	2,919	3,219
Goodwill	379	375
Other noncurrent assets	308	322
Noncurrent assets held for sale	--	23
Total assets	\$6,114	\$5,986
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	\$ 1,037	\$ 1,012
Borrowings due within one year	155	6
Current liabilities related to assets held for sale	--	52
Total current liabilities	1,192	1,070
Long-term borrowings	1,446	1,598
Deferred income tax liabilities	245	284
Post-employment obligations	1,192	1,274
Other long-term liabilities	132	130
Noncurrent liabilities related to assets held for sale	--	3
Total liabilities	4,207	4,359
Stockholders' equity		
Common stock (\$0.01 par value – 350,000,000 shares authorized; shares issued – 98,146,968 and 96,844,445 for 2011 and 2010, respectively)	1	1
Additional paid-in capital	876	793
Retained earnings	3,244	2,880
Accumulated other comprehensive loss	(423)	(432)
	3,698	3,242

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Less: Treasury stock at cost (28,006,492 shares for 2011 and 26,172,654 shares for 2010)	1,791	1,615
Total stockholders' equity	1,907	1,627
Total liabilities and stockholders' equity	\$6,114	\$5,986

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	2011	First Six Months 2010
Cash flows from operating activities		
Net earnings	\$ 431	\$ 249
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	135	139
Gain on sale of assets	(70)	--
Provision (benefit) for deferred income taxes	(32)	12
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(212)	(433)
(Increase) decrease in inventories	(121)	(90)
Increase (decrease) in trade payables	70	90
Increase (decrease) in liabilities for employee benefits and incentive pay	(139)	(10)
Other items, net	(1)	24
Net cash provided by (used in) operating activities	61	(19)
Cash flows from investing activities		
Additions to properties and equipment	(206)	(76)
Proceeds from sale of assets and investments	644	11
Acquisitions and investments in joint ventures	--	(189)
Additions to short-term time deposits	(200)	--
Additions to capitalized software	(5)	(3)
Other items, net	(6)	--
Net cash provided by (used in) investing activities	227	(257)
Cash flows from financing activities		
Net increase in commercial paper, credit facility, and other borrowings	1	1
Repayment of borrowings	(2)	--
Dividends paid to stockholders	(67)	(64)
Treasury stock purchases	(177)	(53)
Proceeds from stock option exercises and other items	75	33
Net cash used in financing activities	(170)	(83)
Effect of exchange rate changes on cash and cash equivalents	--	1
Net change in cash and cash equivalents	118	(358)
Cash and cash equivalents at beginning of period	516	793
Cash and cash equivalents at end of period	\$ 634	\$ 435

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company (the "Company" or "Eastman") in accordance and consistent with the accounting policies stated in the Company's 2010 Annual Report on Form 10-K and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of the Company's 2010 Annual Report on Form 10-K. The unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP") and, of necessity, include some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of all majority-owned subsidiaries and joint ventures. Eastman accounts for other joint ventures and investments where it exercises significant influence, but does not have control, on the equity basis. Intercompany transactions and balances are eliminated in consolidation. Certain prior period data has been reclassified in the Consolidated Financial Statements and accompanying footnotes to conform to current period presentation.

Effective January 1, 2010, the Company adopted amended accounting guidance on transfers of financial assets. The impact of this guidance was prospective with changes in full year 2010 Statements of Consolidated Financial Position and first six months 2010 Unaudited Consolidated Statements of Cash Flows. For additional information, refer to Notes 7, "Borrowings", and 10, "Commitments".

The Company held \$200 million of short-term time deposits as of June 30, 2011. These investments had staggered maturities between three and ten months at the investment date, which exceeded the 90 day threshold for classification as cash or cash equivalents.

2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On January 31, 2011, the Company completed the sale of the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment for \$615 million, subject to post-closing adjustments for working capital, and recognized a gain of approximately \$30 million, net of tax. The Company contracted with the buyer for transition services to supply certain raw materials and services for a period of less than one year. Transition supply agreement revenues of approximately \$175 million, relating to raw materials, were more than offset by costs and reported net in cost of sales. The PET business, assets, and technology sold were substantially all of the Performance Polymers segment and therefore the segment operating results are presented as discontinued operations for all periods presented and are not included in results from continuing operations. The assets and liabilities of this business were reclassified as assets held for sale as of December 31, 2010.

Operating results of the discontinued operations which were formerly included in the Performance Polymers segment are summarized below:

(Dollars in millions)	Second Quarter		First Six Months	
	2011	2010	2011	2010
Sales	\$--	\$222	\$105	\$416
Earnings before income taxes	--	10	15	4
Earnings from discontinued operations, net of tax	--	7	8	3
Gain from disposal of discontinued operations, net of tax	1	--	31	--

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Assets and liabilities of the discontinued operations classified as held for sale as of December 31, 2010 are summarized below:

(Dollars in millions)	December 31, 2010
Current assets	
Trade receivables, net	\$116
Inventories	101
Total current assets held for sale	217
Non-current assets	
Properties and equipment, net	374
Goodwill	1
Other noncurrent assets	22
Total noncurrent assets held for sale	397
Total assets	\$614
Current liabilities	
Payables and other current liabilities	\$52
Total current liabilities held for sale	52
Noncurrent liabilities	
Other noncurrent liabilities	3
Total noncurrent liabilities	3
Total liabilities	\$55

3. ACQUISITIONS

Sterling Chemicals Inc.

On June 22, 2011, the Company entered into a definitive merger agreement to acquire Sterling Chemicals, Inc., a single site North American petrochemical producer, for \$100 million in cash, subject to modest deductions at closing as provided in the merger agreement. The transaction, which is subject to customary conditions to closing, is expected to be completed in third quarter 2011.

Genovique Specialties Corporation

On April 30, 2010, Eastman completed the stock purchase of Genovique Specialties Corporation ("Genovique"), which was accounted for as a business combination. The acquired business is a global producer of specialty plasticizers, benzoic acid, and sodium benzoate. This acquisition included Genovique's manufacturing operations in Kohtla-Järve, Estonia and Chestertown, Maryland and a joint venture in Wuhan, China. Genovique's benzoate ester plasticizers were a strategic addition to Eastman's existing general-purpose and specialty non-phthalate plasticizers. The acquisition added differentiated, sustainably-advantaged products to Eastman's Performance Chemicals and Intermediates ("PCI") segment and enhances the Company's diversification into emerging geographic regions.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The total purchase price was approximately \$160 million, including assumed debt of \$5 million. Transaction costs associated with the acquisition were expensed as incurred. The table below shows the final fair value purchase price allocation for the Genovique acquisition:

	Dollars in millions
Current assets	\$ 48
Properties and equipment	33
Intangible assets	59
Other noncurrent assets	2